

PPF 7800 Index

End-August 2009

This update provides the latest estimated funding position, on a s179 basis, for the defined benefit (DB) schemes in the PPF eligible universe. The s179 basis is, broadly speaking, what would have to be paid to an insurance company to take on the payment of Pension Protection Fund levels of compensation.

The updates from end-March 2009 are based on more up to date scheme data than used in earlier estimates. The impact of the new data set is to improve funding by about £15 billion compared with estimates based on the earlier data set. All figures reported in this document for earlier dates use the new dataset. The number of schemes in the dataset is now almost 7,400, down from almost 7,800 in the old dataset.

The estimates are, as before, based on scheme valuation data, which has been adjusted to consistent dates on an approximate basis, using changes in market indices for principal asset classes, and the fixed interest and index-linked gilt yields used to value liabilities.

Highlights

- The aggregate funding position (total assets minus total liabilities) of almost 7,400 DB funds is estimated to have worsened over the month to a deficit of £173.2 billion at end-August 2009, from a deficit of £158.1 billion at end-July 2009 (Chart 1 and Table 1). Scheme funding is worse than it was a year previously (there was a deficit of £39.3 billion in August 2008).
- The total deficit of schemes in deficit in August 2009 is estimated to have worsened to £194.6 billion from £179.0 billion at the end of July 2009 (Chart 3 and Chart 4). In August 2008, the aggregate deficit of all schemes in deficit stood at £92.7 billion.
- In August 2009, the total surpluses of schemes in surplus increased to £21.4 billion from £20.9 billion at the end of July 2009 (Chart 6). In August 2008, the total surplus of all schemes in surplus stood at £53.4 billion.

The Detail

- The number of schemes in deficit in August 2009 stood at 6,304, up from 6,265 schemes in deficit in July 2009, representing 85 per cent of total DB schemes in the sample (Chart 5).

- The number of schemes in surplus decreased in August 2009 to 1,077 (15 per cent of schemes), from 1,116 in July 2009. There were 1,904 schemes in surplus in August 2008.
- Across the sample of schemes, total scheme assets amounted to £836.4 billion in August 2009 (Chart 2), representing an increase of 4.8 per cent over the month and a decrease of 0.4 per cent over the year to August 2009.
- Meanwhile, scheme liabilities increased by 14.8 per cent over the year to August 2009, to £1,009.6 billion (Chart 2). Liabilities increased by 5.6 per cent over the month from £956.4 billion in July 2009.

Context

- During the month of August there was a 3.3 per cent increase in assets due to rises in both UK and global equities. Meanwhile, lower gilt yields in general led to an increase in liabilities of 5.2 per cent. The FTSE All Share Index rose by 7.1 per cent over August 2009.
- Over the year to August 2009, the FTSE All Share Index fell by 12.1 per cent and 10-year gilt yields were down by 106 basis points (Chart 7).
- Over the past year, the falling equity markets and bond yields have led to an overall worsening of the funding position. Lower bond yields resulted in a 9.6 per cent increase in aggregate liabilities while weaker equity prices reduced assets by 3.1 per cent over the year.

Key Charts

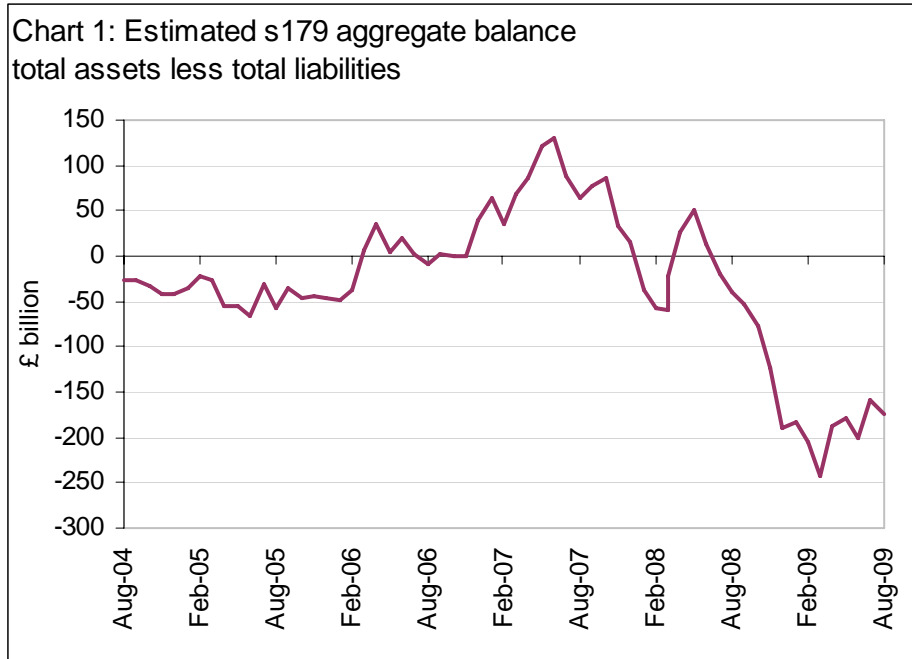


Chart 2: Estimated s179 aggregate assets and liabilities

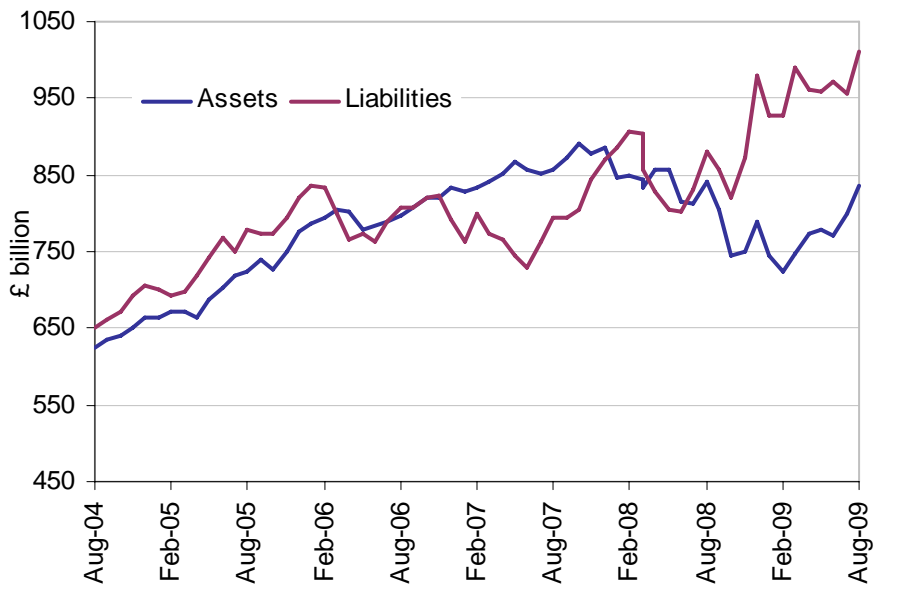


Chart 3: Estimated s179 deficits for deficit schemes only

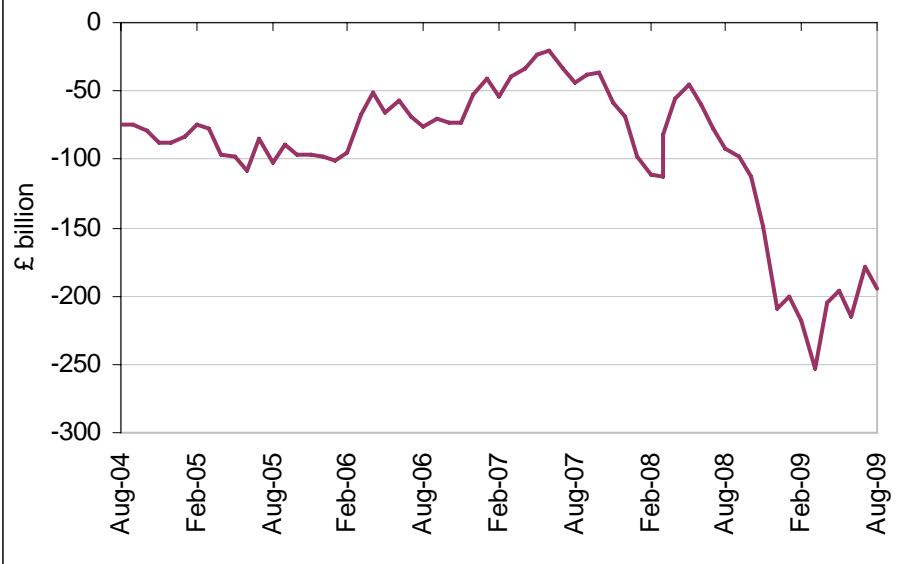


Chart 4: Estimated s179 aggregate assets and liabilities for deficit schemes only

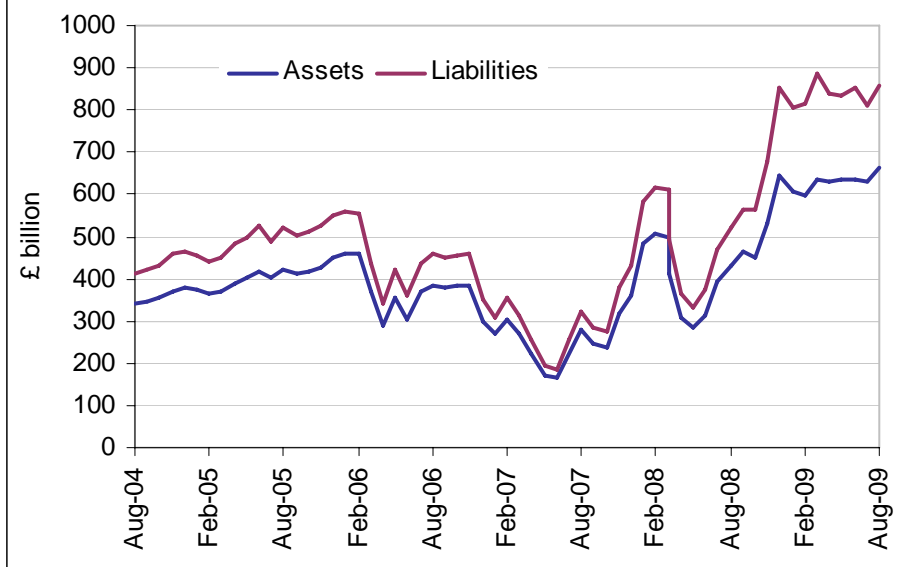
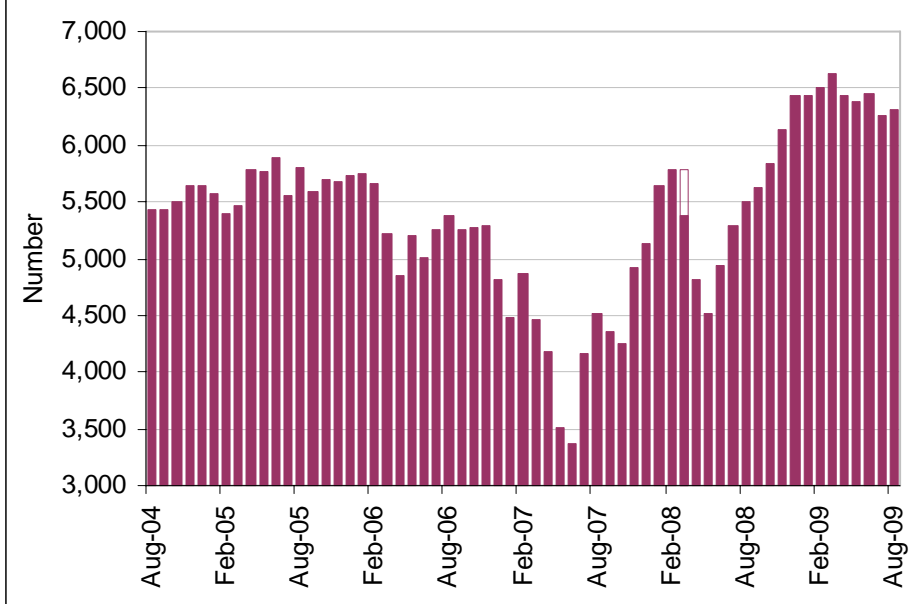
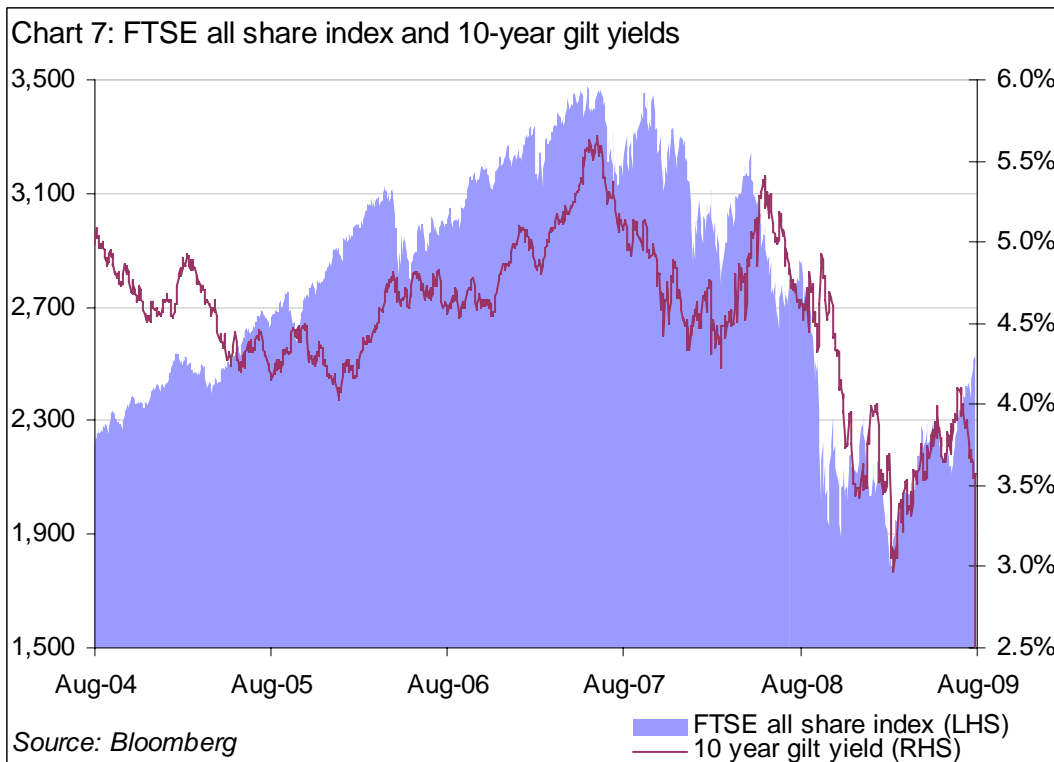
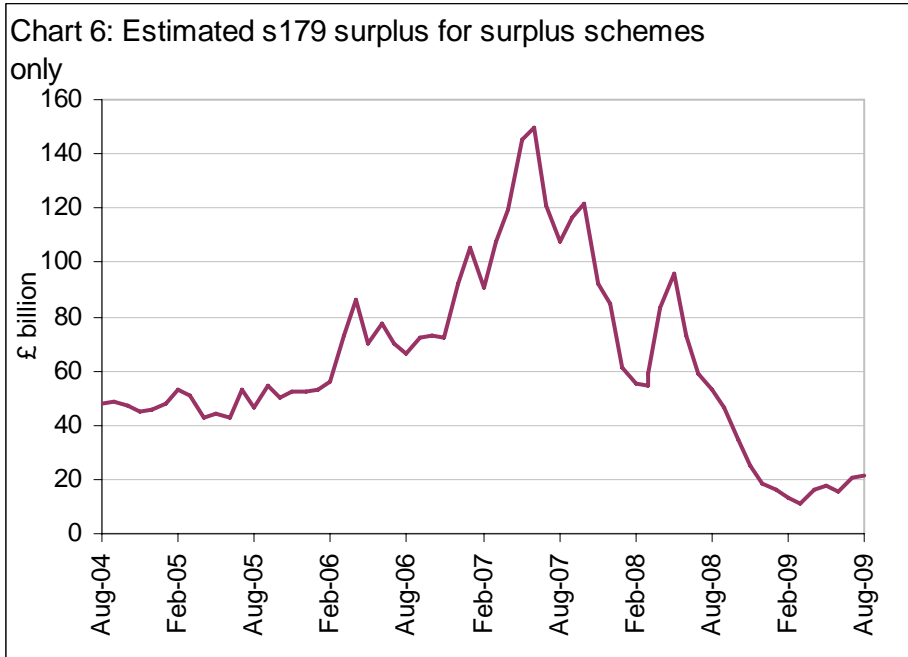


Chart 5: Estimated number of schemes in s179 deficit





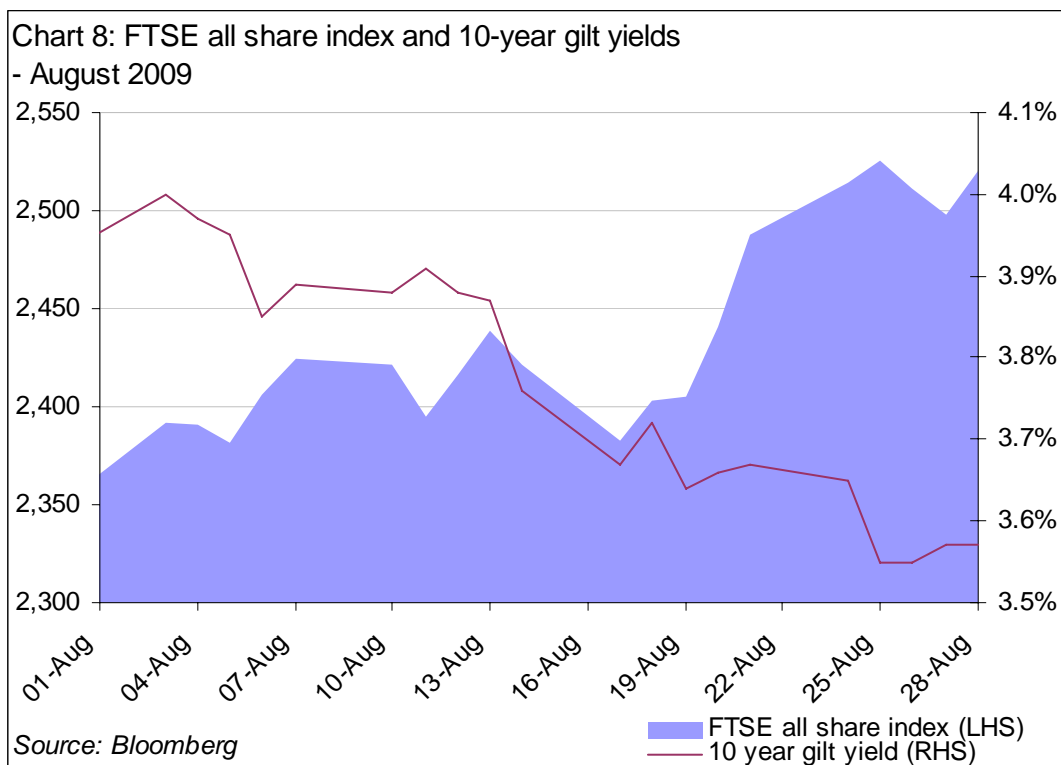


Table 1: Funding Comparisons

	This month - end Aug- 09	Last month - end July- 09	One year ago - end Aug-08
Deficit of schemes in deficit	£194.6bn	£179.0bn	£92.7bn
Number of schemes in deficit	6,304	6,265	5,507
Surplus of schemes in surplus	£21.4bn	£20.9bn	£53.4bn
Number of schemes in surplus	1,077	1,116	1,904
Aggregate balance	-£173.2bn	-£158.1bn	-£39.3bn

Notes

1. The PPF covers certain defined benefit (DB) occupational schemes and DB elements of hybrid schemes. Some DB schemes will be exempt from the PPF, including:

- Unfunded public service schemes;

- Public sector schemes providing pensions to local government employees;
 - Schemes to which a Minister of the Crown has given a guarantee; and
 - Schemes which began to wind up, or were completely wound up, prior to 6 April 2005.
2. The Charts demonstrate the volatility of pension fund deficits over the last five years resulting from movements in financial markets. To determine the aggregate levy schemes pay, the Pension Protection Fund uses a long term risk model (LTRM). This ensures that the Pension Protection Fund adjusts for short term volatility and uncertainty by taking a longer term time horizon. The LTRM generates a probability distribution of claims on the Pension Protection Fund on different longer term horizons from five to twenty years, taking into account a very large number of possible economic and financial market outcomes.
 3. The figures shown in the charts are based on adjusting the scheme valuation data supplied to the Pension Protection Fund for the purpose of the 2008-09 levy (rather than for the 2006-07 and 2007-08 levy as used in previous estimates). This data is transformed to a s179 valuation basis at various dates on an approximate basis using changes in market indices for principal asset classes and the fixed interest and index-linked gilt yields used to value liabilities. The approximation does not allow for benefit accrual or outgo, contributions paid or actual scheme experience.
 4. From 31 March 2009 estimates are based on more up to date scheme data than previous estimates. The new data set is preferable largely because more schemes will have submitted s179 valuations which have replaced approximate s179 funding estimates based on older MFR valuations. The latest dataset of 7,381 schemes is an enlarged version of that used for the Purple 2008 publication. The fall in the estimated eligible universe from 7,744 a year ago reflects such factors as scheme mergers, schemes buying out benefits with an insurance company, and schemes transferring into the PPF compensation scheme, together with more accurate data. The fall in the number of schemes does not have a material impact on the aggregate figures given the small size of these schemes. For more information on the data used see Chapter 2 of the Purple 2008 publication.
 5. The move to the new dataset, which took place at the end of March 2009, resulted in an improvement in scheme funding. For example, the aggregate deficit in February 2009 is estimated to be £204.7 billion using the new dataset and £218.7 billion under the old dataset. The new dataset uses more accurate valuation figures from schemes and this has resulted in upward revisions to assets and downward revisions to liabilities. All funding estimates have been recalculated on the new dataset back to March 2002.

6. In the April 2008 release, changes were made to the actuarial assumptions on discount rates and mortality. In particular all discount rates were raised by 0.3 percentage points to reflect developments in the bulk annuities market. The assumptions reduced scheme liabilities by around £50 billion and was treated as a step change as at 31 March 2008. For more information see notes in the April 2008 PPF7800 release. There has been no change in the s179 basis since then.
7. For the purpose of levy calculation in 2009-10, the Pension Protection Fund uses estimates of scheme funding on a s179 basis as at 31 March 2008. For the calculation of the risk-based levy) for 2008-09, the Pension Protection Fund used estimates of scheme funding on a s179 basis as at 31 October 2007. For the calculation of the risk-based levy (RBL) for 2007-08, the Pension Protection Fund used estimates of scheme funding on a s179 basis as at 31 October 2006. The funding estimates quoted in Purple 2008 were based on 31 March 2008 data, while estimates in Purple 2007 were based on information as at 30 March 2007. The calculation of the 2006-07 levy and Purple 2006 were based on funding as at 31 March 2006.
8. A number of 'rules of thumb' pertaining to the impact of changes in asset prices on s179 assets and liabilities apply. A 7.5 per cent rise in equity markets boosts s179 assets by around 4.0 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.0 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 6.0 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2008 level.